

**REPORT OF THE AUDIT OF THE
BELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BELL COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Bell County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Bell County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$5,654,589 as of June 30, 2010. The fiscal court had unrestricted net assets of \$2,534,038 in its governmental funds as of June 30, 2010, with total net assets of \$5,572,117. In its enterprise fund, total net cash and cash equivalents were \$66,991 with total net assets of \$82,472. The fiscal court had total debt principal as of June 30, 2010 of \$8,106,200 with \$415,264 due within the next year.

Report Comments:

- 2010-01 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Judicial Bond Fund
- 2010-02 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2010-03 The Jailer Should Maintain Accounting Records For Jail Inmate Receipts And Disbursements
- 2010-04 Fiscal Court Should Strengthen Internal Controls Over Payroll

Deposits:

The fiscal court's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$9,653 as of August 31, 2009

Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Albey Brock, Bell County Judge/Executive
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
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Members of the Bell County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bell County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2011 on our consideration of Bell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2010-01 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Judicial Bond Fund
- 2010-02 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2010-03 The Jailer Should Maintain Accounting Records For Jail Inmate Receipts And Disbursements
- 2010-04 Fiscal Court Should Strengthen Internal Controls Over Payroll

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 18, 2011

BELL COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Alben Brock	County Judge/Executive
Charles R. Cornett	Magistrate
Hubert Dozier Jr.	Magistrate
Lonnie E. Maiden Jr.	Magistrate
Coye Silcox	Magistrate
Andy Williams	Magistrate

Other Elected Officials:

William Neil Ward	County Attorney
Rex Miller	Jailer
Becky Blevins	County Clerk
Brue Bennett	Sheriff
Geraldine Jeffers	Property Valuation Administrator
Clyde Creech	Coroner

Appointed Personnel:

Irma Brooks	County Treasurer
Karen Sinkhorn	Payroll Officer
Bruce Nunn	Road Supervisor

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BELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

BELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,653,884	\$ 66,991	\$ 2,720,875
Notes Receivable	48,177		48,177
Total Current Assets	2,702,061	66,991	2,769,052
Noncurrent Assets:			
Notes Receivable	45,000		45,000
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	1,259,079		1,259,079
Buildings	5,505,458		5,505,458
Equipment	1,319,206	7,086	1,326,292
Vehicles	805,037	8,395	813,432
Infrastructure	2,042,476		2,042,476
Total Noncurrent Assets	10,976,256	15,481	10,991,737
Total Assets	13,678,317	82,472	13,760,789
LIABILITIES			
Current Liabilities:			
Bonds Payable	70,000		70,000
Revenue Bonds	180,000		180,000
Financing Obligation Payable	165,264		165,264
Total Current Liabilities	415,264		415,264
Noncurrent Liabilities:			
Bonds Payable	2,205,000		2,205,000
Revenue Bonds	4,965,000		4,965,000
Financing Obligation Payable	520,936		520,936
Total Noncurrent Liabilities	7,690,936		7,690,936
Total Liabilities	8,106,200		8,106,200
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,918,233	15,481	2,933,714
Restricted For:			
Debt Service	119,846		119,846
Unrestricted	2,534,038	66,991	2,601,029
Total Net Assets	\$ 5,572,117	\$ 82,472	\$ 5,654,589

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,453,066	\$ 171,190	\$ 1,424,225	\$ 940,471
Protection to Persons and Property	2,195,050	934,716	796,152	121,062
General Health and Sanitation	192,360	21,415	32,715	
Social Services	30,963		35,500	
Transportation Facilities and Services	91,925			
Recreation and Culture	133,397		130,000	
Roads	1,105,762		1,468,758	288,073
Debt Service	343,625			
Capital Projects	595,842			
Total Governmental Activities	<u>9,141,990</u>	<u>1,127,321</u>	<u>3,887,350</u>	<u>1,349,606</u>
Business-type Activities:				
Jail Canteen	85,344	84,684		
Total Business-type Activities	<u>85,344</u>	<u>84,684</u>		
Total Primary Government	<u>\$ 9,227,334</u>	<u>\$ 1,212,005</u>	<u>\$ 3,887,350</u>	<u>\$ 1,349,606</u>

General Revenues:

Taxes:	
Real Property Taxes	
Personal Property Taxes	
Motor Vehicle Taxes	
Delinquent Taxes	
Franchise Taxes	
Insurance Premium Taxes	
In Lieu Tax Payments	
Other Taxes	
Excess Fees	
Miscellaneous Revenues	
Interest Income	
Total General Revenues	
Change in Net Assets	
Net Assets - Beginning- Restated	
Net Assets - Ending	

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,917,180)	\$	\$ (1,917,180)
(343,120)		(343,120)
(138,230)		(138,230)
4,537		4,537
(91,925)		(91,925)
(3,397)		(3,397)
651,069		651,069
(343,625)		(343,625)
(595,842)		(595,842)
(2,777,713)		(2,777,713)
	(660)	(660)
	(660)	(660)
(2,777,713)	(660)	(2,778,373)
754,215		754,215
221,527		221,527
147,670		147,670
42,195		42,195
230,183		230,183
635,028		635,028
46,265		46,265
359,203		359,203
106,625		106,625
181,613		181,613
58,983	166	59,149
2,783,507	166	2,783,673
5,794	(494)	5,300
5,566,323	82,966	5,649,289
\$ 5,572,117	\$ 82,472	\$ 5,654,589

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	
ASSETS					
Cash and Cash Equivalents	\$ 1,054,259	\$ 46,567	\$ 213,582	\$ 1,071,280	.
Total Assets	<u>1,054,259</u>	<u>46,567</u>	<u>213,582</u>	<u>1,071,280</u>	:
FUND BALANCES					
Reserved for:					
Encumbrances	9,652	21,854	1,045	12,108	
Debt Service					
Unreserved:					
General Fund	1,044,607				
Special Revenue Funds		24,713	212,537	1,059,172	.
Total Fund Balances	<u>\$ 1,054,259</u>	<u>\$ 46,567</u>	<u>\$ 213,582</u>	<u>\$ 1,071,280</u>	:

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Ambulance Fund	Local Government Economic Development Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 132,947</u>	<u>\$ 119</u>	<u>\$ 135,130</u>	<u>\$ 2,653,884</u>
<u>132,947</u>	<u>119</u>	<u>135,130</u>	<u>2,653,884</u>
9,123		119,846	53,782 119,846
123,824	119	15,284	1,044,607 1,435,649
<u>\$ 132,947</u>	<u>\$ 119</u>	<u>\$ 135,130</u>	<u>\$ 2,653,884</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,653,884
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	15,676,735
Accumulated Depreciation	(4,745,479)
Notes Receivable Are Not A Current Financial Resource And Therefore Are Not Reported in the Funds.	93,177
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
General Obligation Bonds	(2,275,000)
Revenue Bonds	(5,145,000)
Financing Obligations	(686,200)
Net Assets of Governmental Activities	<u>\$ 5,572,117</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,706,081	\$	\$	\$
In Lieu Tax Payments	39,192	7,073		
Excess Fees	106,626			
Licenses and Permits	41,985			
Intergovernmental	1,126,811	1,455,495	259,790	1,178,200
Charges for Services	21,563		52,937	
Miscellaneous	289,371	27,285	39,560	8,521
Interest	52,197			6,708
Total Revenues	<u>3,383,826</u>	<u>1,489,853</u>	<u>352,287</u>	<u>1,193,429</u>
EXPENDITURES				
General Government	1,749,865	21,158		19,048
Protection to Persons and Property	469,822		771,466	3,758
General Health and Sanitation	158,567			30,000
Social Services		2,663		28,300
Transportation Facilities and Services		91,925		
Recreation and Culture				133,397
Roads	15,908	902,694		150,889
Debt Service	123,947		73,750	
Capital Projects		193,686		
Administration	1,042,567	320,434	215,062	582
Total Expenditures	<u>3,560,676</u>	<u>1,532,560</u>	<u>1,060,278</u>	<u>365,974</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(176,850)</u>	<u>(42,707)</u>	<u>(707,991)</u>	<u>827,455</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	280,576		825,808	22,323
Transfers To Other Funds				(1,048,131)
Total Other Financing Sources (Uses)	<u>280,576</u>	<u></u>	<u>825,808</u>	<u>(1,025,808)</u>
Net Change in Fund Balances	103,726	(42,707)	117,817	(198,353)
Fund Balances - Beginning (Restated)	<u>950,533</u>	<u>89,274</u>	<u>95,765</u>	<u>1,269,633</u>
Fund Balances - Ending	<u>\$ 1,054,259</u>	<u>\$ 46,567</u>	<u>\$ 213,582</u>	<u>\$ 1,071,280</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Ambulance Fund	Local Government Economic Development Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 635,028	\$ 2,341,109
			46,265
			106,626
			41,985
10,169	835,308	386,899	5,252,672
823,025			897,525
10,272		27,610	402,619
		78	58,983
<u>843,466</u>	<u>835,308</u>	<u>1,049,615</u>	<u>9,147,784</u>
	700,632		2,490,703
864,900		282,253	2,392,199
		2,715	191,282
			30,963
			91,925
			133,397
			1,069,491
88,155		414,188	700,040
	402,156		595,842
316,690		1,000	1,896,335
<u>1,269,745</u>	<u>1,102,788</u>	<u>700,156</u>	<u>9,592,177</u>
<u>(426,279)</u>	<u>(267,480)</u>	<u>349,459</u>	<u>(444,393)</u>
309,910			1,438,617
		(390,486)	(1,438,617)
<u>309,910</u>		<u>(390,486)</u>	
(116,369)	(267,480)	(41,027)	(444,393)
249,316	267,599	176,157	3,098,277
<u>\$ 132,947</u>	<u>\$ 119</u>	<u>\$ 135,130</u>	<u>\$ 2,653,884</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

BELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (444,393)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	813,818
Depreciation Expense	(720,046)

Repayments of Notes Receivable reported for the Governmental Activities are reported as revenues in the Governmental Funds	(59,000)
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The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

General Obligation Bond Payments	65,000
Financing Obligations Principal Payments	175,415
Bond Principal Payments	175,000

Change in Net Assets of Governmental Activities	\$ 5,794
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BELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

BELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 66,991
Total Current Assets	<u>66,991</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles	9,708
Equipment	11,500
Less Accumulated Depreciation	<u>(5,727)</u>
Total Noncurrent Assets	<u>15,481</u>
Total Assets	<u>82,472</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	15,481
Unrestricted	<u>66,991</u>
Total Net Assets	<u>\$ 82,472</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

BELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 39,998
Vending Machine Receipts	35,888
Fiscal Court Reimbursement	8,798
Total Operating Revenues	<u>84,684</u>
Operating Expenses	
Cost of Sales	53,739
Medical	20,600
Educational and Recreational	5,339
Sales Tax	1,702
Equipment	2,045
Depreciation	1,909
Miscellaneous	10
Total Operating Expenses	<u>85,344</u>
Operating Income (Loss)	<u>(660)</u>
Nonoperating Revenues	
Interest	166
Total Nonoperating Revenues	<u>166</u>
Change In Net Assets	(494)
Total Net Assets - Beginning	<u>82,966</u>
Total Net Assets - Ending	<u><u>\$ 82,472</u></u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund	Jail Canteen Fund
Cash Flows From Operating Activities		
Cash Received From Customers - Canteen	\$ 39,998	
Cash Received From Customers - Vending Machines	35,888	
Cash Received From Fiscal Court - Reimbursements	8,798	
Cash Payments to Suppliers for Goods and Services	(53,739)	
Cash Payments to Suppliers for Equipment	(2,045)	
Cash Payments for Educational and Recreational Goods and Services	(5,339)	
Cash Payments for Medical Expenses	(20,600)	
Cash Payments to State - Sales Tax	(1,702)	
Cash Payments to Other Sources	(10)	
Net Cash Provided (Used) by Operating Activities	<u>1,249</u>	
Cash Flows From Investing Activities		
Interest Earned	<u>166</u>	
Net Cash Provided (Used) by Investing Activities	<u>166</u>	
Net Increase (Decrease) In Cash and Cash Equivalents	1,415	
Cash and Cash Equivalents - July 1	<u>65,576</u>	
Cash and Cash Equivalents - June 30	<u><u>\$ 66,991</u></u>	

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

	<u>Activities - Enterprise Fund</u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>	<u>Jail Canteen Fund</u>
Operating Income (Loss)	\$ (660)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>1,909</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,249</u></u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

BELL COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 843</u>
Total Assets	<u>843</u>
Liabilities	
Amounts Held In Custody For Others	<u>843</u>
Total Liabilities	<u>843</u>
Net Assets	<u> </u>
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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BELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Bell County Public Properties Corporation

The Bell County Fiscal Court appoints the Public Properties Corporation (PPC) governing board and has the ability to impose its will on the governing body. In addition, the fiscal court is financially accountable and legally obligated for the debt of the PPC. Financial information for the PPC is blended within Bell County's financial statements. All activities of the PPC are accounted for within a governmental fund.

C. Bell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Ambulance Fund - The primary purpose of this fund is to account for the ambulance service activity of the county. The primary sources of revenue for this fund are collections for ambulance services.

Local Government Economic Development Fund – These funds may be spent for Local Economic Development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Federal Grants Fund, Flood Mitigation Fund, Insurance Premium Fund, Revolving Fund, Public Properties Corporation Judicial Center Bond Fund, and Public Properties Corporation Detention Center Bond Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Ambulance Fund, Local Government Economic Development Fund, Federal Grants Fund, Flood Mitigation Fund, Insurance Premium Fund, and Revolving Loan Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

Public Properties Corporation Judicial Center Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Bell County Justice Center. The Department for Local Government does not require the fiscal court to report or budget these funds.

Public Properties Corporation Detention Center Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Bell County Detention Center. The Department for Local Government does not require the fiscal court to report or budget these funds.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from jail inmates and remitted for jail canteen expenses, booking fees, or returned to the jail inmate.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 10,000	10-50

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation: Judicial Center Bond Fund and Detention Center Bond Fund. The Department for Local Government does not require these funds to be budgeted.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Bell County Fiscal Court: Middlesboro-Bell County Airport Board.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize Fiscal Court's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$9,653

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,259,079	\$	\$	\$ 1,259,079
Total Capital Assets Not Being Depreciated	1,259,079			1,259,079
Capital Assets, Being Depreciated:				
Buildings	7,358,157			7,358,157
Equipment	1,515,893	484,608		2,000,501
Vehicles	1,707,391	67,719		1,775,110
Infrastructure	3,022,397	261,491		3,283,888
Total Capital Assets Being Depreciated	13,603,838	813,818		14,417,656
Less Accumulated Depreciation For:				
Buildings	(1,734,725)	(117,974)		(1,852,699)
Equipment	(552,136)	(129,159)		(681,295)
Vehicles	(814,992)	(155,081)		(970,073)
Infrastructure	(923,580)	(317,832)		(1,241,412)
Total Accumulated Depreciation	(4,025,433)	(720,046)		(4,745,479)
Total Capital Assets, Being Depreciated, Net	9,578,405	93,772		9,672,177
Government Activities Capital Assets, Net	\$ 10,837,484	\$ 93,772	\$ 0	\$ 10,931,256

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 172,121
Protection to Persons and Property	148,093
General Health & Sanitation	1,078
Roads, Including Depreciation of General Infrastructure Assets	<u>398,754</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 720,046</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for Business-Type Activities for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Business-Type Activities</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 9,708	\$	\$	\$ 9,708
Equipment	11,500			11,500
Total Capital Assets Being Depreciated	21,208			21,208
Less Accumulated Depreciation For:				
Vehicles	(1,748)	(874)		(2,622)
Equipment	(2,070)	(1,035)		(3,105)
Total Accumulated Depreciation	(3,818)	(1,909)		(5,727)
Total Capital Assets, Being Depreciated, Net	\$ 17,390	\$ (1,909)	\$ 0	\$ 15,481

Depreciation expense was charged to functions of the Business-Type Activities as follows:

Business-Type Activities:

Jail Commissary	\$ 1,909
Total Depreciation Expense - Business-Type Activities	\$ 1,909

Note 4. Long-term Debt

A. Waterline Capital Lease Agreements

The County has entered into three capital lease agreements with the Kentucky Association of Counties Leasing Trust Program for the construction of various waterlines. The following is a description of the terms of each lease agreement:

- 1) The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on October 28, 1993, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2010, the principal balance remaining was \$34,000. Future lease payments are as follows:

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

A. Waterline Capital Lease Agreements (Continued)

1) (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest and Fees
2011	\$ 11,000	\$ 1,136
2012	11,000	712
2013	12,000	272
Totals	<u>\$ 34,000</u>	<u>\$ 2,120</u>

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$ 11,000
Long-Term Portion	<u>23,000</u>
Total	<u>\$ 34,000</u>

- 2) The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on November 21, 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2010, the principal balance remaining was \$27,000. Future lease payments are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 5,000	\$ 1,550
2012	5,000	1,238
2013	5,000	874
2014	6,000	589
2015	6,000	217
Totals	<u>\$ 27,000</u>	<u>\$ 4,468</u>

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$ 5,000
Long-Term Portion	<u>22,000</u>
Total	<u>\$ 27,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

A. Waterline Capital Lease Agreements (Continued)

- 3) The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in May 27, 1998, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a thirteen-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2010, the principal balance remaining was \$32,177. Future lease payments are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 32,177	\$ 1,022
Totals	\$ 32,177	\$ 1,022

D-04C

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$ 32,177
Total	\$ 32,177

B. Ambulance Garage Capital Lease Agreement

The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on November 26, 2003. The lease proceeds were used to acquire land and a building. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2010, the principal balance remaining was \$100,057. Future lease payments are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 5,654	\$ 4,075
2012	5,892	3,912
2013	6,141	3,656
2014	6,399	3,392
2015	6,668	3,116
2016-2020	37,799	11,039
2021-2024	31,504	2,578
Totals	\$ 100,057	\$ 31,768

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

C. Judicial Building

On December 1, 2005, the Bell County Public Properties Corporation issued the 2005 Revenue Bond for the purpose of refinancing the 2000 General Obligation Bond that was used for the construction of the Farmer Helton Judicial Building.

Bell County and the Public Properties Corporation are acting as agents for the Administrative Office of the Courts (AOC) in order to manage and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the AOC's payments in order to meet the debt service for the bonds.

The AOC, with the execution of the lease, has expressed its intention to continue to pay the in full both the principal and interest in each successive biennial budget period until June 30, 2029; however, the lease does not legally obligate the AOC to do so.

As of June 30, 2010, the principal balance remaining was \$5,145,000. The future payments are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 180,000	\$ 202,173
2012	190,000	194,365
2013	195,000	186,761
2014	205,000	178,861
2015	215,000	170,566
2016-2020	1,215,000	715,174
2021-2025	1,495,000	449,141
2026-2029	1,450,000	125,106
Totals	<u>\$ 5,145,000</u>	<u>\$ 2,222,147</u>

D. Community Action Agency

On October 5, 2006, the Bell County Fiscal Court issued General Obligation Bonds on behalf of the Bell/Whitley Community Action Agency (CAA) for the construction of a building to house the CAA offices. The CAA is responsible for the payments of the bond. The principal amount outstanding as of June 30, 2010 was 1,125,000. Bond payments for the remaining years are:

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

D. Community Action Agency (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 25,000	\$ 49,766
2012	25,000	48,672
2013	25,000	47,578
2014	25,000	46,484
2015	25,000	45,391
2016-2020	155,000	207,704
2021-2025	190,000	170,188
2026-2030	245,000	123,047
2031-2035	295,000	63,984
2036-2037	140,000	6,125
Totals	<u>\$ 1,150,000</u>	<u>\$ 808,939</u>

E. Detention Facility

In 2006, the Bell County Fiscal Court issued \$3,500,000 of General Obligation Improvement bonds for financing the construction of the Bell County Detention Facility. On June 23, 2009, the bond was partially defeased. The county decided after the original bond being issued, not to build a new detention center, therefore, funds that remained in the Public Properties Construction Fund was transferred to an escrow account in order to make payments as required by the bond schedule. As of June 30, 2010, the escrow account had a balance of \$2,341,869.

The county will be responsible for paying back funds that had been used to acquire land and improving land that was to be used for the new detention center. The bonds require semiannual interest and principal payments to be made. As of June 30, 2010, the County's portion of principal amount outstanding was \$1,150,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30		
	Principal	Interest & Fees
2011	\$ 25,000	\$ 49,766
2012	25,000	48,672
2013	25,000	47,578
2014	25,000	46,484
2015	25,000	45,391
2016-2020	155,000	207,704
2021-2025	190,000	170,188
2026-2030	245,000	123,047
2031-2035	295,000	63,984
2036-2037	140,000	6,125
Totals	<u>\$ 1,150,000</u>	<u>\$ 808,939</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

F. Industrial Building

The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on July 13, 2006. The lease proceeds were used to finance the construction of an industrial building on behalf of the Bell County Industrial Authority. Total amount financed was \$360,000. Terms of the agreement stipulate a fifteen-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The Industrial Authority rents the building from the county. The rent is equivalent to the principal and interest payments. As of June 30, 2010, the principal balance remaining was \$305,000. Future lease payments are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 20,000	\$ 14,641
2012	20,000	13,641
2013	20,000	12,640
2014	25,000	11,409
2015	25,000	10,158
2016-2020	135,000	31,312
2021-2022	60,000	2,071
Totals	<u>\$ 305,000</u>	<u>\$ 95,872</u>

G. Ambulances

The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on September 4, 2007. The lease proceeds were used to purchase four (4) ambulances. The total amount financed was \$352,500. Terms of the agreement stipulate a five-year repayment schedule, with principal and interest payments due monthly with a variable rate of interest. The principal outstanding as June 30, 2010 was \$169,539. Future lease payments are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 73,007	\$ 6,112
2012	76,741	2,940
2013	19,791	219
Totals	<u>\$ 169,539</u>	<u>\$ 9,271</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

H. Rescue Squad Equipment

The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on May 5, 2008. The lease proceeds were used to purchase equipment for the rescue squad. The total amount financed was \$64,036. Terms of the agreement stipulate a three-year repayment schedule, with principal and interest payments due monthly with a fixed interest rate of 4%. The principal outstanding as June 30, 2010 was \$18,427. Future lease payments are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 18,427	\$ 469
Totals	\$ 18,427	\$ 469

I. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 2,340,000	\$	\$ 65,000	2,275,000	\$ 70,000
Revenue Bonds	5,320,000		175,000	5,145,000	180,000
Financing Obligations	861,615		175,415	686,200	165,264
Governmental Activities					
Long-term Liabilities	\$ 8,521,615	\$ 0	\$ 415,415	\$ 8,106,200	\$ 415,264

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$343,625 in on long-term bonds and financing obligations.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Commitments and Contingencies

In August 1999, Bell County received a Single-County Local Government Economic Development Fund Grant in the amount of \$800,000, which was assigned to the Bell County Industrial Foundation for disbursement to the Cumberland Gap Provision Company in the form of an \$800,000 loan. This loan was for a period of ten (10) years at three percent (3%) interest. Monthly interest only payments were due for the first three (3) years of the loan term. At the end of that three (3) year period, \$100,000 of the principal amount of the loan was forgiven, based on the Company's degree of compliance with the terms of the jobs requirement, and the remaining balance is being amortized at an interest rate of three percent (3%) per annum over the remaining life of the loan, to be repaid in equal consecutive monthly payments of principal and interest. Cumberland Gap Provision Company pays the note payments to the Bell County Industrial Development Foundation, which pays the payments over to the county, and the county pays the payments over to the Kentucky Economic Development Finance Authority. Upon default of the loan agreement, the Cumberland Gap Provision Company, The Bell County Industrial Foundation, and the Bell County Fiscal Court can be responsible for repayment to the Kentucky Economic Development Finance Authority. Cumberland Gap Provision Company was in substantial compliance with the terms of the loan agreement and the final payment was received by the Bell County Fiscal Court during fiscal year 2010, which the county paid to the Kentucky Economic Development Finance Authority. As of June 30, 2010, this loan has been paid in full.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2008 was \$586,722, FY 2009 was \$497,930, and FY 2010 was \$608,271.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2010, Bell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The beginning net assets for governmental activities have been restated for a prior year overstatement of interest of \$1,107 in the LGEA Fund and a prior year understatement in accumulated depreciation of \$2,994 for vehicles in capital assets due to a formula error. The beginning net assets balance of \$5,570,424 was decreased by \$4,101, resulting in a restated net assets beginning balance of \$5,566,323. The beginning fund balance of the LGEA Fund was restated by \$1,107 due to an overstatement of interest in the prior year.

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BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,795,000	\$ 1,795,000	\$ 1,706,081	\$ (88,919)
In Lieu Tax Payments	24,000	24,000	39,192	15,192
Excess Fees	3,890	3,890	106,626	102,736
Licenses and Permits	43,000	43,000	41,985	(1,015)
Intergovernmental	1,395,897	1,395,897	1,126,811	(269,086)
Charges for Services	26,226	26,226	21,563	(4,663)
Miscellaneous	184,500	214,216	289,371	75,155
Interest	72,000	72,000	52,197	(19,803)
Total Revenues	<u>3,544,513</u>	<u>3,574,229</u>	<u>3,383,826</u>	<u>(190,403)</u>
EXPENDITURES				
General Government	1,757,694	1,899,905	1,749,865	150,040
Protection to Persons and Property	941,425	983,486	469,822	513,664
General Health and Sanitation	140,360	167,741	158,567	9,174
Roads	16,020	16,020	15,908	112
Debt Service	124,000	123,962	123,947	15
Administration	1,259,664	1,277,765	1,042,567	235,198
Total Expenditures	<u>4,239,163</u>	<u>4,468,879</u>	<u>3,560,676</u>	<u>908,203</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(694,650)</u>	<u>(894,650)</u>	<u>(176,850)</u>	<u>717,800</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	191,380	391,380	280,576	(110,804)
Transfers To Other Funds	<u>(66,892)</u>	<u>(66,892)</u>	<u></u>	<u>66,892</u>
Total Other Financing Sources (Uses)	<u>124,488</u>	<u>324,488</u>	<u>280,576</u>	<u>(43,912)</u>
Net Changes in Fund Balance	(570,162)	(570,162)	103,726	673,888
Fund Balance - Beginning	<u>570,162</u>	<u>570,162</u>	<u>950,533</u>	<u>380,371</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,054,259</u>	<u>\$ 1,054,259</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
In Lieu Tax Payments	\$	\$	\$ 7,073	\$ 7,073
Intergovernmental	1,642,243	1,923,782	1,455,495	(468,287)
Miscellaneous			27,285	27,285
Total Revenues	1,642,243	1,923,782	1,489,853	(433,929)
EXPENDITURES				
General Government	23,000	23,000	21,158	1,842
Social Services	8,980	8,980	2,663	6,317
Transportation Facilities and Services	128,000	98,112	91,925	6,187
Roads	1,166,346	1,492,429	902,694	589,735
Capital Projects	200,000	200,000	193,686	6,314
Administration	392,945	378,289	320,434	57,855
Total Expenditures	1,919,271	2,200,810	1,532,560	668,250
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	(277,028)	(277,028)	(42,707)	234,321
Net Changes in Fund Balance	(277,028)	(277,028)	(42,707)	234,321
Fund Balance - Beginning	277,028	277,028	89,274	(187,754)
Fund Balance - Ending	\$ 0	\$ 0	\$ 46,567	\$ 46,567

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 247,410	\$ 247,410	\$ 259,790	\$ 12,380
Charges for Services	49,000	49,000	52,937	3,937
Miscellaneous	3,500	23,500	39,560	16,060
Total Revenues	299,910	319,910	352,287	32,377
EXPENDITURES				
Protection to Persons and Property	820,305	858,225	771,466	86,759
Debt Service	90,000	90,000	73,750	16,250
Administration	282,305	264,385	215,062	49,323
Total Expenditures	1,192,610	1,212,610	1,060,278	152,332
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(892,700)	(892,700)	(707,991)	184,709
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	892,700	892,700	825,808	(66,892)
Total Other Financing Sources (Uses)	892,700	892,700	825,808	(66,892)
Net Changes in Fund Balance			117,817	117,817
Fund Balance - Beginning			95,765	95,765
Fund Balance - Ending	\$ 0	\$ 0	\$ 213,582	\$ 213,582

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,200,000	\$ 1,200,000	\$ 1,178,200	\$ (21,800)
Miscellaneous			8,521	8,521
Interest			6,708	6,708
Total Revenues	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,193,429</u>	<u>(6,571)</u>
EXPENDITURES				
General Government	20,000	20,000	19,048	952
Protection to Persons and Property	4,332	4,332	3,758	574
General Health and Sanitation	30,000	30,000	30,000	
Social Services	35,500	35,500	28,300	7,200
Recreation and Culture	126,732	133,397	133,397	
Roads	150,000	160,069	150,889	9,180
Administration	26,150	9,416	582	8,834
Total Expenditures	<u>392,714</u>	<u>392,714</u>	<u>365,974</u>	<u>26,740</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>807,286</u>	<u>807,286</u>	<u>827,455</u>	<u>20,169</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			22,323	(22,323)
Transfers To Other Funds	(935,808)	(1,135,808)	(1,048,131)	(87,677)
Total Other Financing Sources (Uses)	<u>(935,808)</u>	<u>(1,135,808)</u>	<u>(1,025,808)</u>	<u>(110,000)</u>
Net Changes in Fund Balances	(128,522)	(328,522)	(198,353)	130,169
Fund Balances - Beginning (Restated)	<u>128,522</u>	<u>328,522</u>	<u>1,269,633</u>	<u>941,111</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,071,280</u>	<u>\$ 1,071,280</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 10,170	\$ 10,170	\$ 10,169	\$ (1)
Charges for Services	759,000	759,000	823,025	64,025
Miscellaneous		8,648	10,272	1,624
Total Revenues	<u>769,170</u>	<u>777,818</u>	<u>843,466</u>	<u>65,648</u>
EXPENDITURES				
Protection to Persons and Property	819,647	868,620	864,900	3,720
Debt Service	88,373	88,155	88,155	
Administration	344,334	324,227	316,690	7,537
Total Expenditures	<u>1,252,354</u>	<u>1,281,002</u>	<u>1,269,745</u>	<u>11,257</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(483,184)</u>	<u>(503,184)</u>	<u>(426,279)</u>	<u>76,905</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>313,000</u>	<u>313,000</u>	<u>309,910</u>	<u>(3,090)</u>
Total Other Financing Sources (Uses)	<u>313,000</u>	<u>313,000</u>	<u>309,910</u>	<u>(3,090)</u>
Net Changes in Fund Balances	(170,184)	(190,184)	(116,369)	73,815
Fund Balances - Beginning	<u>170,184</u>	<u>190,184</u>	<u>249,316</u>	<u>59,132</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 132,947</u>	<u>\$ 132,947</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

LOCAL GOVERNMENT DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 3,820,000	\$ 3,820,000	\$ 835,308	\$ (2,984,692)
Total Revenues	<u>3,820,000</u>	<u>3,820,000</u>	<u>835,308</u>	<u>(2,984,692)</u>
EXPENDITURES				
General Government	2,520,000	2,520,000	700,632	1,819,368
Capital Projects	1,300,000	1,300,000	402,156	897,844
Total Expenditures	<u>3,820,000</u>	<u>3,820,000</u>	<u>1,102,788</u>	<u>2,717,212</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			<u>(267,480)</u>	<u>(267,480)</u>
Net Changes in Fund Balances			(267,480)	(267,480)
Fund Balances - Beginning			<u>267,599</u>	<u>267,599</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 119</u>	<u>\$ 119</u>

BELL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**BELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

BELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	Insurance Premium Fund	Revolving Loan Fund	Public Properties Corporation Judicial Center Bond Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 15,280	\$ 4	\$ 119,846	\$ 135,130
Total Assets	<u>15,280</u>	<u>4</u>	<u>119,846</u>	<u>135,130</u>
FUND BALANCES				
Reserved for:				
Debt Service			119,846	119,846
Unreserved:				
Special Revenue Funds	<u>15,280</u>	<u>4</u>	<u> </u>	<u>15,284</u>
Total Fund Balances	<u>\$ 15,280</u>	<u>\$ 4</u>	<u>\$ 119,846</u>	<u>\$ 135,130</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	Federal Grants Fund	Insurance Premium Fund	Revolving Loan Fund	Public Properties Corporation Judicial Center Bond Fund
REVENUES				
Taxes	\$	\$ 635,028	\$	\$
Intergovernmental	2,715			384,184
Miscellaneous			27,610	
Interest		63	15	
Total Revenues	<u>2,715</u>	<u>635,091</u>	<u>27,625</u>	<u>384,184</u>
EXPENDITURES				
Protection to Persons and Property		282,253		
General Health and Sanitation	2,715			
Debt Service			27,621	384,184
Administration				1,000
Total Expenditures	<u>2,715</u>	<u>282,253</u>	<u>27,621</u>	<u>385,184</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>352,838</u>	<u>4</u>	<u>(1,000)</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds		(390,486)		
Total Other Financing Sources		<u>(390,486)</u>		
Net Change in Fund Balances		(37,648)	4	(1,000)
Fund Balances - Beginning		52,928		120,846
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 15,280</u>	<u>\$ 4</u>	<u>\$ 119,846</u>

The accompanying notes are an integral part of the financial statements

BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010
(Continued)

Public Properties Corporation Detention Center Bond Fund	Total Non-Major Governmental Funds
\$	\$ 635,028
	386,899
	27,610
	78
	<u>1,049,615</u>
	282,253
	2,715
2,383	414,188
	<u>1,000</u>
<u>2,383</u>	<u>700,156</u>
<u>(2,383)</u>	<u>349,459</u>
	<u>(390,486)</u>
	<u>(390,486)</u>
(2,383)	(41,027)
<u>2,383</u>	<u>176,157</u>
<u>\$ 0</u>	<u>\$ 135,130</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Bell County Judge/Executive
Members of the Bell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 18, 2011. Bell County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bell County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bell County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bell County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying comments and recommendations as items 2010-01, 2010-02, 2010-03, and 2010-04 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bell County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Bell County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the comments and recommendations. We did not audit the County Judge/Executive's and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

January 18, 2011

**BELL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2010

BELL COUNTY COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2010

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES:

2010-01 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Judicial Bond Fund

Since the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC), this entity is reported as a blended component unit of the Fiscal Court. During our review of cash we noted the Fiscal Court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for fiscal year ended June 30, 2010 for PPC's judicial bond fund.

We recommend the Fiscal Court prepare and maintain ledgers for receipts and disbursements on the PPC's judicial bond fund. We also recommend the bank reconciliations be prepared monthly on all PPC bank accounts. We further recommend the Fiscal Court prepare end of the year financial statements on the PPC's judicial bond fund.

County Judge/Executive Albey Brock's Response: The Fiscal Court with Ross, Sinclair & Associates will maintain proper records for the Public Properties Corporation Judicial Bond Fund.

2010-02 The Fiscal Court Should Improve Purchase And Procurement Procedures

We tested a total of one hundred-forty-eight (148) expenditures from all of the Fiscal Court's budgeted funds and noted the following exceptions:

- Fifteen (15) of purchases for services did not have a purchase order issued.
- Fourteen (14) vendor invoices for road materials (gravel) were missing load or scale tickets to support vendor invoices.
- Six (6) vendor payments for a gas card did not include supporting receipts for gas purchases.

According to the County Judge Executive's office, purchase orders are not issued for the purchase of services. However, according to the County's administrative code section 4.6, indicates that a purchase order be issued for all purchases of supplies and services below twenty thousand dollars (\$20,000) by the County Judge Executive or his designee.

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All original vendor invoices should be maintained including any supporting documentation which includes fuel receipts and road materials load or scale tickets. All purchase orders should be approved and issued for all purchases except payroll and utilities. All purchase orders should be approved and issued before the purchases are made or the work or service is performed.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, the Fiscal Court is exposing public resources to potential misstatements and/or fraud.

We recommend the Fiscal Court maintain all original vendor invoices including any supporting documentation, approve and issue purchase orders before purchases are made or the work or service is performed.

County Judge/Executive Albey Brock's Response: The Bell County Administrative Code is currently being amended. Purchases will be made in compliance with the Bell County administrative code and all original documentation will be maintained accordingly.

BELL COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES: (Continued)

2010-03 The Jailer Should Maintain Accounting Records For Jail Inmate Receipts And Disbursements

During our review of receipts and disbursements of jail inmate money, we noted the Jailer collects cash from inmates for booking fees, bond fees, work release fees, inmate medical fees, circuit clerk bonds, and inmate money. The Jailer does not prepare a receipts ledger, disbursements ledger, daily checkout sheets, and inmate money listing. The Jailer is issuing receipts for inmate money collected and maintaining copies.

We recommend the Jailer develop a system for accounting for these inmate cash transactions. This would include the following:

- Daily checkout sheets for receipts collected each day. Copies of receipts issued for that day should be stapled to the daily checkout sheet.
- Monthly receipts ledger. Totals receipts collected for each category (i.e. booking fees, bond fees etc.) for each day included on daily checkout sheets.
- Monthly disbursements ledger. Cash payments to each payee. This would include cash payments to the County Treasurer (booking fees, bond fees, work release fees, and inmate medical fees), payments to circuit clerk (bonds), and payments to inmates to be used for jail canteen or refunds on account.
- Monthly inmate account listing. This should include all inmates that have money in their inmate account. This would also include any inmate money not refunded to inmates when released. The total of the inmate account listing should add up to the amount of cash on hand the Jailer keeps in his safe.
- Monthly reconciliation of inmate money. This would include the beginning balance of inmate money cash on hand add receipts collected during the month, and less any disbursements made during the month. Ending cash balance should reconcile to the inmate listing and the cash on hand the Jailer keeps in his safe.

All records should be prepared by the Jailer's bookkeeper and reviewed by the Jailer. That review should be documented by the Jailers initials and date.

County Jailer Rex Miller's Response: We are working with Jailtracker and other sources to find the best solutions to begin doing this.

County Judge/Executive Albey Brock's Response: The Bell County Jailer will maintain daily checkout sheets, monthly receipts ledger, monthly disbursements ledger, monthly inmate account list and monthly reconciliation of inmate monies.

BELL COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES: (Continued)

2010-04 Fiscal Court Should Strengthen Internal Controls Over Payroll

During our review of payroll, the following instances were noted:

- Two (2) of sixteen (16) employees tested were paid overtime due to miscalculations on timecards.
- Two (2) employees took off sick and used overtime on a different day to makeup an eight (8) hour work day.
- Two (2) timesheets/timecards were not signed by the employee or supervisor

In addition auditors noted the Fiscal Courts Administrative Code states “The County’s official workweek shall begin and end on Friday at 8:00 AM. However timecards reflect the workweek starts on Thursday.

We recommend the Fiscal Court strengthen internal controls over the payroll process to ensure timecards/timesheets are prepared each pay period, accurately account for time worked, clock in/out times totals are accurate, are submitted and signed by employees, and approved by supervisors. We also recommend the Fiscal Court takes steps to ensure overtime is properly calculated based on an established work week in compliance with their administrative code. We also recommend the Fiscal Court review their administrative code to ensure compliance with their code.

County Judge/Executive Albey Brock’s Response: The Bell County Administrative Code is currently being amended to reflect necessary changes to strengthen internal controls and ensure compliance. A hand scanning system for payroll is being put in place to alleviate miscalculations on timecards.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAMS**

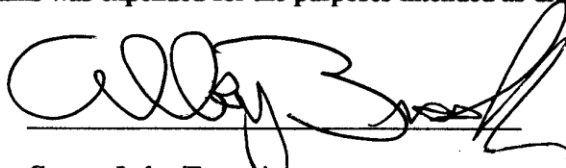
BELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAMS
BELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Bell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.

A large, stylized handwritten signature in black ink, likely belonging to the County Judge/Executive, positioned above a horizontal line.

County Judge/Executive

A handwritten signature in black ink that reads "Irma Brooks", positioned above a horizontal line.

County Treasurer

